

Power Finance & Risk

Exclusive Insight on Power M&A and Project Financing

By the publisher of GlobalCapital

● AWARDS

12th Annual Deals & Firms Of The Year Awards

PFR is gearing up to launch the voting process for our 12th Annual Deals & Firms Of The Year Awards. Visit www.powerfinancerisk.com to send in your votes.

● AT PRESS TIME

Berkshire Hathaway Unit Upsizes Notes, Tightens Pricing

Berkshire Hathaway Energy subsidiary Solar Star Funding has upsized a bond deal and squeezed pricing. Page 2

Q&A: Larry Kellerman, Twenty-First Century Utilities

In his latest chapter in the power industry, Larry Kellerman is looking to wed utilities to the latest technology "It is something that, frankly, I have wanted to do for an extended period of time, which is to raise the capital and acquire one or more regulated utilities and optimize those utilities, as the name of the company suggests, by using state of the art technologies and commercial models," Kellerman tells *PFR* in his first interview since launching **Twen-**



Larry Kellerman

ty-First Century Utilities in January. Senior Reporter **Olivia Feld** spoke to Kellerman about the company's plans for acquisitions and his take on the future of the utility model in this exclusive.

PFR: What is your plan for **Twenty-First Century Utilities**?

Kellerman: The plan is simple. It is something that, frankly, I have wanted to do for an extended PAGE 10 >

Deepwater Seals First U.S. Offshore Wind Financing

Olivia Feld

Deepwater Wind Block Island, a subsidiary of **Deepwater Wind**, has closed the first financing for an offshore wind project in the U.S. **Société Générale** and **KeyBank** are joint lead arrangers on the \$290 million deal backing the 30 MW

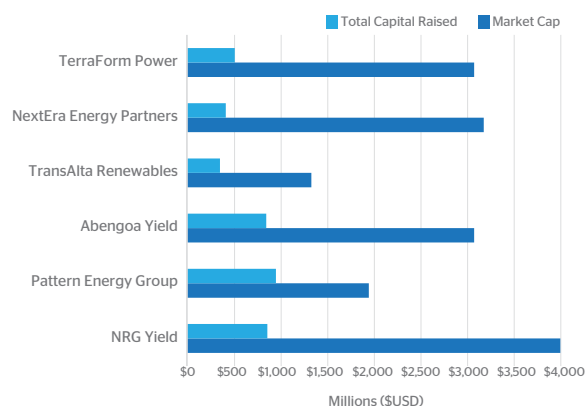
Block Island project, approximately three miles south of Block Island, R.I.

Société Générale is also advising Deepwater. Prior to securing the debt, Deepwater raised more than \$70 million in equity funding from an affiliate of **D.E. Shaw Group**, which is the owner of Deepwater.

Construction has started onsite and is due to be complete by the fourth quarter of 2016. The project has an offtake agreement with **National Grid**, according to the **Rhode Island Public Utilities Commission**.

Cape Wind Associ- PAGE 12 >

Yieldco IPO Capital Raised vs. Market Cap



Source: Kaye & Scholer via National Renewable Energy Laboratory

YieldCo Sweep - February

Nischinta Amarnath

The yield company structure continues to attract renewables players to the table, with several sponsors considering initial public offerings since the first quarter.

First Solar and **SunPower** are the latest entities to announce their possible entrance into the yieldco arena. The two companies are considering listing a combined yieldco in a move to create a larger operating asset base, an analyst notes, adding that First Solar and SunPower likely don't have enough assets to come to the market individually. First Solar's large-scale utility presence will complement SunPower's repertoire of rooftop projects for prospective investors, and the combination will also provide a larger development pipeline for growth, says **Swami Venkataraman**, v.p. and senior credit officer at **Moody's Investor Services** (*PFR*, 2/26). PAGE 12 >



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● THE BUZZ

Kellerman Turns The Page On Utilities

Larry Kellerman, former ceo of Houston-based **Quantum Utility Generation**, has moved on to his next venture. Kellerman is firing up **Twenty-First Century Utilities** with an eye toward acquiring utilities, upgrading their business models and retrofitting them with the latest

technologies. Meanwhile, a pair of solar deals made their way through the market. **Bersshire Hathaway Energy** unit **Solar Star Funding**, upsized its issuance of senior secured 20-year notes by \$10 million. The price point puts the bonds in the same echelon as bank loans. Proceeds will back Solar Star's 579 MW Solar Star project in California that BHE bought from **SunPower** in 2013. ■

● AT PRESS TIME

Berkshire Hathaway Squeezes Note Pricing, Upsizes Issue

Solar Star Funding, a subsidiary of **Berkshire Hathaway Energy**, has upsized an issuance of senior secured series B notes by \$10 million and tightened pricing from 4.375% to 3.95%.

"The sub-4% pricing is amazing. Bankers are ecstatic. This pricing puts them as competitive, if not more than competitive, than bank debt currently," notes a deal watcher. A number of institutional investors and insurance funds took tickets in the deal. **Barclays**, **Citigroup** and **Royal Bank of Scotland** are book runners on the 20-year notes, which expanded from \$315 million to \$325 million. **BNP Paribas**, **CIBC Bank**, **Mitsubishi UFJ Securities** and **SMBC** are co-managers.

"They were able to get another \$10 million because of the coupon rise. Investors are also getting comfortable with the type of asset and pricing it accordingly", adds the deal watcher.

The extra capital will be used to adjust the debt-to-equity ratio on the 579 MW Solar Star

projects, two installations in Kern and Los Angeles Counties in California. The combined cost of the projects is almost \$3 billion.

This is the second tranche of notes following a 144A bond offering in July 2013 (PFR, 7/1). The first tranche went out at \$700 million but was upsized to \$1 billion. Citi, Barclays and the RBS were book runners, and pulled in pricing at 5.375% after originally setting it at 5.5% (PL, 6/20). The transaction marked the largest bond deal backing a renewable project in the U.S. at the time.

SunPower developed the project, formerly known as Antelope Valley Solar Projects, and sold it to Solar Star in 2013. The project is 97% complete and expected to be online by the third quarter of this year. **Southern California Edison Company** has an offtake agreement with Solar Star.

The notes have been rated Baa3 by **Moody's Investors Service** and BBB by **Standard & Poor's**.

Spokespeople for **Berkshire Hathaway Energy**, **Barclays**, **Citigroup** and **Royal Bank of Scotland** did not respond to inquiries by press time or declined to comment. ■

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Do you have questions, comments or criticisms about a story that appeared in **PFR**? Should we be covering more or less of a given area? The staff of **PFR** is committed as ever to evolving with the markets and we welcome your feedback.

Feel free to contact **Sara Rosner**, editor, at (212) 224-3165 or sara.rosner@powerfinancerisk.com

GENERATION AUCTION & SALE CALENDAR ●

These are the current live generation asset sales and auctions, according to Power Finance and Risk's database.

A full listing of completed sales for the last 10 years is available at <http://www.powerfinancerisk.com/AuctionSalesData.html>

Generation Sale ■ DATABASE

| Seller | Assets | Location | Advisor | Status/Comment |
|--------------------------------|---|----------------------|-------------------|--|
| American Electric Power | Portfolio (7,923 MW Gas, Coal) | Indiana and Ohio | Goldman Sachs | AEP has tapped Goldman to conduct a strategic evaluation of the assets (PFR, 2/9). |
| Apex Clean Energy | Balko (314 MW Wind) | Beaver County, Okla. | Macquarie Capital | D.E. Shaw is buying the project (PFR, 1/12). |
| Apex Clean Energy | Kay (314 MW Wind) | Kay County, Okla. | | Southern Power Co. is considering buying the project (PFR, 1/12). |
| Apex Clean Energy | Kingfisher (298 MW Wind) | Oklahoma | | The deal has wrapped. First Reserve bought the project (PFR, 2/9). |
| ArcLight Capital Partners | Bayonne (512 MW Gas) | New Jersey | Morgan Stanley | Macquarie is assuming \$510M in debt and paying \$210M in cash (PFR, 2/9). |
| Energisa | Portfolio (488 MW Wind, Biomass, Hydro) | Brazil | | Brookfield Renewable Energy Partners is buying the portfolio for \$545M (PFR, 12/8). |
| ET Solar Energy Corp., Geenex | Halifax (20 MW Solar) | Roanoke Rapids, N.C. | | Duke Energy Renewables is buying the asset (PFR, 1/12). |
| Exelon Corp. | Fore River Energy Center (809 MW Gas) | Massachusetts | Citigroup | Calpine has issued unsecured bonds to fund the \$530M purchase (PFR, 2/9). |
| Exelon | Keystone (1,711 MW Coal) | Pennsylvania | | ArcLight has launched a TLB package to finance its acquisition of stakes in Keystone and Conemaugh (PFR, 12/8). |
| Exelon | Conemaugh (1,711 MW Coal) | Pennsylvania | | ArcLight has launched a TLB package to finance its acquisition of stakes in Keystone and Conemaugh (PFR, 12/8). |
| Footprint Power | Salem Harbor (674 MW Gas) | Massachusetts | Macquarie Capital | Highstar Capital and Oaktree are taking equity stakes in the project (PFR, 1/19). |
| NRG Energy | Storm Lake 1 (108 MW Wind) | Iowa | | Allete Clean Energy is buying the asset (PFR, 12/8). |
| PPL Corp., Riverstone Holdings | York project (49 MW Gas) | Pennsylvania | | PPL and Riverstone agree with FERC to sell one of two asset portfolios (PFR, 2/2). |
| | Ironwood (660 MW Gas) | Pennsylvania | | |
| | Bayonne (158 MW Gas) | New Jersey | | |
| | Camden (145 MW Gas) | New Jersey | | |
| | Elmwood Park (65 MW Gas) | New Jersey | | |
| | Newark Bay (120 MW Gas) | New Jersey | | |
| | Pedricktown (118 MW Gas) | New Jersey | | |
| | Holtwood (248 MW Hydro) | Pennsylvania | | |
| | Wallenpaupak (44 MW Hydro) | Pennsylvania | | |
| | Crane (399 MW Coal) | Maryland | | |
| Quantum Utility Generation | Choctaw (760 MW Gas) | Mississippi | | Tennessee Valley Authority has agreed to acquire the plant for \$34 M (PFR, 2/23). |
| SunEdison | Crucero (71.2 MW Solar) | Maria Elena, Chile | | ECOSolar has acquired a minority stake of less than 20% in Crucero (PFR, 2/16). |
| TradeWind Energy | Decatur Parkway (80 MW Solar) | Georgia | | Southern Power will own 100% of the two solar projects (PFR, 3/2). |
| | Decatur County (19 MW Solar) | | | |
| Verso Paper Corp. | Various (118.4 MW) | Bucksport, Maine | | American Iron & Metal is buying the plants as part of its \$60 million acquisition of the Bucksport Paper Mill (PFR, 12/15). |
| Verso Paper Corp. | Bucksport Power (185 MW Cogen) | Bucksport, Maine | | American Iron & Metal is buying the plants as part of its \$60 million acquisition of the Bucksport Paper Mill (PFR, 12/15). |

● New or updated listing

The accuracy of the information, which is derived from many sources, is deemed reliable but cannot be guaranteed.

To report updates or provide additional information on the status of financings, please call Editor Sara Rosner at (212) 224 3165 or e-mail sara.rosner@powerfinancerisk.com

PROJECT FINANCE

Deal Book is a matrix of energy project finance deals that Power Finance & Risk is tracking in the energy sector.

A full listing of deals for the last several years is available at <http://www.powerfinancerisk.com/Data.html>

Live Deals: Americas

| Sponsor | Project | Location | Lead(s) | Loan | Loan Amount | Tenor | Notes |
|--|--|-----------------------|--|---|-------------|-------|--|
| 8minutenergy Renewables & D. E. Shaw Renewable Investments | Springbok (133 MW Solar) | Kern County, Calif. | TBA | Debt | \$130M | TBA | The financing is slated to close in April 2015 (see story, page 6). |
| Advanced Power | Cricket Valley (1 GW Gas) | Dover, N.Y. | TBA | Debt | TBA | TBA | Advanced Power is considering launching a financing to back the project estimated to cost \$1.4B (PFR, 3/2). |
| Advanced Power | Carroll County Energy (755 MW Gas) | Ohio | BNP, Crédit Agricole | TBA | TBA | TBA | Deal is set to wrap in the next few weeks (PFR, 2/9). |
| Algonquin Power & Utilities Corp. | Odell (200 MW Wind) | Minnesota | NordLB, BayernLB, Santander, CIBC, Deutsche Bank | TBA | TBA | TBA | Deal is likely to wrap in Q2 (PFR, 2/16). |
| Apex Wind | Balko Wind (300 MW Wind) | Oklahoma | TBA | TBA | TBA | TBA | D.E. Shaw buys the project (PFR, 1/12). |
| ATCO Group & Quanta Services | Fort McMurray (Transmission) | Alberta | TBA | TBA | TBA | TBA | Sponers looking to finance \$1.43 billion project (PFR, 1/12). |
| Cape Wind Associates | Cape Wind (468 MW Wind) | Cape Cod, Mass. | MUFG | TBA | \$1.95B | TBA | National Grid and NStar terminate their offtake contracts (PFR, 1/12). |
| Cheniere Energy | Corpus Christi (LNG Export Facility) | Corpus Christi, Texas | SocGen | TBA | \$11.5B | 7-yr | Cheniere Energy mandates 18 joint lead arrangers (PFR, 1/12). |
| Competitive Power Ventures | Orange County (650 MW Gas) | New York | TBA | Debt, Equity | \$900M | TBA | The project is slated to be online in 2016 (PFR, 2/23). |
| E.ON, GE | Grandview (211 MW Wind) | Amarillo, Texas | Bank of America, JPMorgan | Tax Equity | \$222M | TBA | Sponsors have garnered tax equity from Bank of America and JPMorgan (PFR, 2/9). |
| EDP Renewables North America | Rising Tree III (99 MW Wind) | Kern County, Calif. | TBA | Tax Equity | TBA | TBA | EDPR is seeking tax equity investment in the project (PFR, 3/2). |
| EDP Renewables North America | Headwaters (200 MW Wind) | Randolph County, Ind. | BAML | Equity, Tax Equity | TBA | TBA | Tax equity investment wrapped from Bank of America Merrill Lynch subsidiary (PFR, 1/12). |
| Enel Green Power North America | Osage (150 MW Wind) | Massachusetts | JPMorgan | Tax Equity | TBA | TBA | Enel has obtained tax equity from JPMorgan (PFR, 2/9). |
| Energy Investors Funds | Keys Energy Center (735 MW Gas) | Brandywine, Md. | Natixis, MUFG Union Bank | TBA | TBA | TBA | Deal is set to wrap in the next few weeks (PFR, 2/2). |
| First Reserve | Kingfisher (298 MW Wind) | Oklahoma | Morgan Stanley, OneWest Bank, Santander | Senior secured construction loan, Letters of Credit | TBA | TBA | Rabobank pulled out of the deal before close (PFR, 2/23). |
| Footprint Power | Salem Habor (647 MW Gas) | Massachusetts | BNP, GE EFS, MUFG | Term Loan | \$600M | | Deal wraps with 10 lenders (PFR, 1/19). |
| Freeport LNG | Quintana Island (LNG Export Facility) | Texas | TBA | TBA | \$4B | TBA | Deal is expected to wrap in the second quarter (PFR, 2/23). |
| GDF Suez, Pemex | Los Ramones II Sur (178-mile Pipeline) | Mexico | Santander | TBA | TBA | TBA | Deal wrapped at the end of 2014 (PFR, 1/26) |
| INova, PEMEX | Los Ramones II Norte (274-mile Pipeline) | Mexico | Santander | Commercial Bank Tranche | TBA | 12-yr | Deal is set to wrap in the next few weeks (PFR, 1/26). |
| | | | | Development Bank Tranche | TBA | 20-yr | |
| Penn Energy Renewables | Various (37 MW Solar) | Ontario | Rabobank | TBA | \$125m | TBA | Deal wrapped (PFR, 1/21). |
| Panda Power Funds | Temple 1 (758 MW Gas) | Temple, Texas | Goldman Sachs, Credit Suisse | Term Loan B | \$375M | TBA | Deal is expected to close the week of Feb. 23 (PFR, 2/16). |
| Rockland Capital | Eagle Point (240 MW Gas) | Westville, N.J. | Investec | Refinancing | \$170M | TBA | The deal wrapped on an oversubscription at the end of February (see story, page 6). |
| | Sabine (100 MW Gas) | Orange, Texas | | | | | |
| | Lakeswind (50 MW Wind) | Rollag, Minn. | | | | | |
| SunEdison | Crucero (71.2 MW Solar) | Maria Elena, Chile | IDB, OPIC, CorpBanca, Clean Technology Fund | Non-recourse senior secured loans | \$155M | 19-yr | Deal has wrapped (PFR, 2/16). |

New or updated listing

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To report updates or provide additional information on the status of financings, please call Senior Reporter Olivia Feld at (212) 224-3260 or e-mail olivia.feld@powerfinancerisk.com

MERGERS & ACQUISITIONS ●

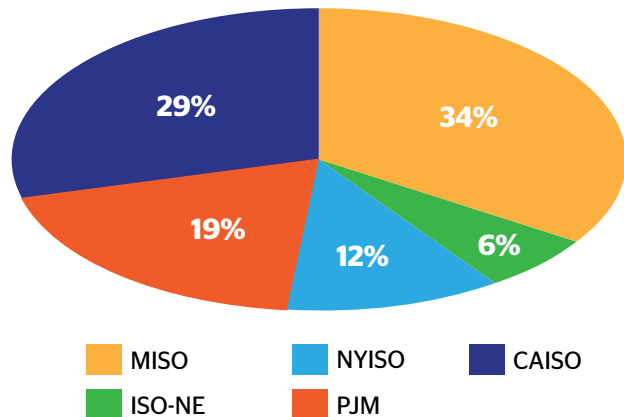
Dynegy Scraps Calif. Portfolio Sale

Dynegy is canceling a process to sell its 2.7 GW California portfolio after concluding a strategic evaluation with advisors **Bank of America Merrill Lynch** and **Barclays**.

As a part of its strategic evaluation, Dynegy had decided to move on to a second round of bidding after receiving an encouraging price for the plants from first-round bidders in October, a company spokesman says. The offers from second round bidders were far lower than the first round, however. The number and identity of bidders could not be learned. The Houston-based company was hoping to close the sale by the end of last month (PFR, 2/12).

The plants in the sale comprise three plants in Monterey County: the 165 MW Oakland

Dynegy's U.S. Portfolio



Source: Dynegy Inc.

oil-fired peaker in Oakland, the 2,549 MW Moss Landing natural gas-fired facility in Moss Landing, and the 650 MW gas-fired

Morro Bay plant in Morro Bay. Dynegy shut down the Morro Bay plant in February because it did not generate sufficient revenue to justify the cost of upgrades.

The strategic evaluation came in the wake of Dynegy's purchase of 11 coal- and gas-fired plants totaling 6.1 GW from **Duke Energy** and 10 fossil fuel-fired plants totaling 6.4 GW from **Energy Capital Partners** for \$2.8 billion and \$3.45 billion, respectively (PFR, 8/22/14). The purchase is expected to double Dynegy's existing portfolio to nearly 26 GW and provide retail electricity to Illinois, Ohio, Pennsylvania and Michigan. The deal is slated to wrap by April 1,

following approval from the U.S. **Federal Energy Regulatory Commission**. ■

PEOPLE & FIRMS ●

MMA Taps Financier Ahead Of Solar Growth

MMA Energy Capital has hired **Kevin Panzica** as v.p. of finance as the company looks to expand its financing activity with solar projects. Panzica started his new role in the New York office on March 2 and he reports to **Bob Hopper**, managing director.

Panzica's responsibilities will include growing MMAEC's solar lending business. The asset manager aims to provide capital to solar developers, EPC contractors and long-term asset owners across the U.S and Canada.

Panzica worked with **MMA Renewable Ventures** from April 2007 to August 2008 in its office in San Francisco, Calif. MMAEC's parent company sold MMARV to Madrid-based solar developer **Fotowatio** (PFR, 3/6/09). Panzica has also held positions at **Solar Liberty**, **SunEdison** and **Enfinity Corp.**, which was acquired by SunEdison last year, as well as **Union Bank**. Panzica has worked on solar and wind deals totaling \$500 million over the last 10 years.

"I've seen how developers, bankers and

installers view different types of financing, operational and construction risks associated with different types of projects, especially brownfield ones. This will help us determine the value and the true level of risk involved in each project we're looking at," Panzica says.

MMAEC is executing a financing backing a solar asset, Panzica says, adding that the developers of some projects that MMAEC is financing are exploring the possibility of launching yield companies. The identities of the developers involved with MMAEC, the size of its latest project financing deal and other details have not been disclosed.

MMAEC's parent company **MMA Capital Management** was formerly known as **Municipal Mortgage and Equity**. MuniMae offloaded MMARV to repay collateral-level debts and free up capital. MMA Capital Management formed MMAEC last year to focus on construction financing, development capital and debt financing for renewables. ■

Breeze Surfaces At KPMG

Geraint Breeze, who recently left **CIBC**, has landed at KPMG in Toronto.

Breeze has joined the KPMG direct investments team, an investment and asset advisory business within KPMG focused on the needs of direct investors in real assets, Breeze tells *PFR*. He started in February, according to **LinkedIn**.

The team works on global infrastructure and power, from the development of an initial allocation to originating and supporting direct investments and co-investments, he adds.

Breeze was executive director of project finance for six years at CIBC (PFR, 2/25). Before joining the Toronto-based bank, he was director of infrastructure finance at **Lloyds Banking Group**. Prior to Lloyds, he was director of project finance at **Manulife Financial**.

A spokesperson for KPMG in Montvale, N.J., did not respond to inquiries. ■

PROJECT FINANCE

Rockland Seal \$170M Refi

Rockland Capital has sealed a \$170 million refinancing for a three-plant portfolio. **Investec** led the seven-year deal, which is oversubscribed.

Half a dozen commercial and investment banks joined the syndicate, according to a banker. Pricing is 325 basis points over LIBOR and in line with Investec's target for the transaction, notes a deal watcher.

The portfolio of assets include the 240 MW Eagle Point combined cycle gas-fired plant in Westville, N.J., the 100 MW Sabine co-generation facility in Orange, Texas and the 50 MW Lakeswind project in Rollag, Minn.

Last year Rockland worked with **Barclays** to sell the merchant Eagle Point plant in PJM (PFR, 7/7). However, The Woodlands, Texas-based shop postponed the sale in favor of building a new steam turbine. The refinancing deal includes a separate tranche

to fund this development. The new facility will be operational in the summer of 2016 and the project will likely to go back onto the market after completion, according to a deal watcher.

Rockland brought a 50% stake in the project from **ArcLight Capital Partners** in March (PFR, 3/14) and the remaining 50% from **NRG Energy** in December (PFR, 10/13). The facility sells power and steam to an adjacent chemical plant owned by **Lanxess Corp.**, in addition to offtake agreements with **Entergy Gulf States** and **Tenaska Power Services**.

The Lakeswind project has 20-year power purchase agreements with **Great Lakes Utilities**, **North Central Power Co.**, and **Northern Wisconsin Electric Co.** **Union Bank** is a tax equity investor in the project (PFR, 2/5). Lakeswind went online early last year. ■

8minute, D.E Shaw Target \$130M Financing

Affiliates of **8minutenergy Renewables** and **D. E. Shaw Renewable Investments** are in the market for \$130 million in debt for the 133 MW Springbok solar project in Kern County, Calif., **Tom Buttgenbach**, president of 8minutenergy Renewables tells PFR. **Paragon Energy Advisors** is financial advisor to 8minutenergy.

The financing is slated to close in April 2015, although joint lead arrangers have not been appointed yet, Buttgenbach says. The sponsors are in final negotiations with a tax equity investor, he adds.

862SK 8me, a subsidiary of California-based 8minutenergy Renewables, and an affiliate of New York-based D. E. Shaw Renewable Investments, closed an initial round of financing for the project in December (PFR, 12/19)

"It was a stepping stone. They're now out in the market and speaking to banks about the complete project financing," a deal watcher tells PFR.

Springbok has a power purchase agreement with the **Southern California Public Power Authority**, on behalf of SCPPA member, the **Los Angeles Department of Water and Power**. Construction on Springbok is slated to begin in the second quarter of next year, with operations due to begin in June 2016. 8minutenergy and DESRI will jointly own and operate the project, with 8minutenergy running the engineering.

8minutenergy finalized a \$30 million deal with **Macquarie Capital** to finance the 90 MW Redwood solar project, also in Kern County, Calif., in June 2014.

Spokespeople for D. E. Shaw Renewable Investments declined to comment and Paragon Energy Advisors did not respond to inquiries by press time. ■

#PowerTweets

For more news and coverage, follow @PowerFinRisk on Twitter, as well as Editor @SaraReports, @OliviaFeld and @NishAmarnath.

@AbydKarmali1967

#MITEC2015 MT @nautorious: @BofAML's Ray Wood: #Yieldcos hav revolutionized view of #renewableenergy industry; 5 IPOs so far, 5 more on way

@MeisterWorks

#SEIAFinTax speaker: latest chatter is that #yieldcos are looking for project portfolios of at least 20 MW but could go as low as 10 MW.

@Siemens_Energy

#Gas-insulated #transmission lines (GIL) are a flexible and secure way for high-voltage #transmission. How GIL works: <http://sie.ag/1zKleQC>

@DNVGL_Energy

#Regulators and #Utilities: Do you have questions about 111(d)? Download our new whitepaper here: <http://fal.cn/-PJ>

@JouleAssets

"3rd-party financing is a 'critical lynchpin in the ecosystem' of renewable #energy," @scottiej1, @GenerateCapital: <http://buff.ly/18m2Kjb>

@hireelectric

@tccpublicmarket @adambrault @_crossdiver let's talk about making this a net zero, solar powered facility. #communitysolar

@EIAgov

Latest monthly and year-to-date US #electricity data posted at: <http://go.usa.gov/3xMEw> #natgas #nuclear #coal #hydro #CO2 #wind #solar

@IEA

Capital costs of various LNG projects <http://bit.ly/14SQuW1> #LNG #Gas #Energy

@Shell_NatGas

Shell operates the first #LNG offshore supply vessel in the Gulf of Mexico, the Harvey Energy: <http://l.ctx.ly/r/xygn>

@NAWindpower

In budget proposal, Pa. Gov. Wolf allocates \$20 million to #wind energy generation <http://bit.ly/1EgNG4y>



INDUSTRY CURRENT ●

Community Solar Models and Risks

This week's Industry Current is written by **Jake Seligman**, associate at **Chadbourne & Parke** in Washington, D.C. Seligman evaluates investor attraction to community solar projects and explores key opportunities, risks and challenges.



Jake Seligman

Community solar projects are emerging as a new asset class, distinct from residential, commercial, industrial and utility-scale projects. It is still early, but lenders and tax equity investors are beginning to invest.

Like any new asset class, community solar projects have new risks to understand and allocate. This article explains some of the risks and how community solar works in a typical program, recognizing that community solar programs differ by state and utility.

Community solar programs are cropping up around the country. Eight states plus the District of Columbia have enabling legislation in place. Colorado and Massachusetts lead in installations. Minnesota has also had significant activity. A handful of other states are working on community solar legislation.

Enabling legislation is not always necessary. A study by the **Solar Electric Power Association** counted 58 programs in 22 states, including those initiated by utilities and third parties in partnership with utilities.

WHAT IS COMMUNITY SOLAR?

A community solar project is a solar photovoltaic array, typically around 1 MW in size, to which customers buy in or subscribe. Projects are either ground mounted or located on large roofs, like a commercial or industrial building.

A customer owns or subscribes to a portion of the project. Customers can be residential, municipal, commercial or industrial customers.

There are two main models. In a "subscription model," the customer pays the developer for its share of the output, usually a fixed price per Kwh per month or a fixed lease payment, escalating with inflation. The customer can also prepay the developer for all of the expected output from the customer's share of the project. In a "purchase model," the customer makes an upfront payment to buy a panel or series of panels.

The electricity from the project is delivered to the local utility. The utility then credits each customer for that customer's share of the elec-

tricity output. The customer pays its normal bill to the utility, reduced by the credit.

Before building a community solar project, the developer will sign subscription agreements with customers. Subscription agreements are similar to power purchase agreements in commercial projects. A typical term is 20 years from commercial operation. The customer agrees to pay for all the electricity produced by its portion of the project. Unlike a power purchase agreement, the customer does not receive electricity from the project. Rather, the customer is credited for the output to which it subscribes.

Customers sometimes also sign reservation agreements, if the project will not be built for some time. A reservation agreement simply reserves the customer's spot (typically for a deposit) for a period of time. The customer signs a subscription agreement before the project begins producing electricity.

A key element of the subscription agreement is the accounting and billing arrangement. The developer reports each customer's share of the electricity output to the utility. The utility credits the customer's bill at a price set out in the state or utility's community solar program guidelines, similar to a net metering arrangement. In the subscription model, the developer retains the environmental attributes, which it can sell to the utility in a separate agreement. The developer also retains the tax benefits.

The utility and developer have a separate arrangement for interconnection and electricity offtake. Many programs require the utility to purchase unsubscribed electricity. For example, if the developer cannot find enough subscribers to take output from the whole project, then the utility will pay for the unsubscribed amount.

The amount the utility would pay in event of undersubscription is not as much as a subscribing customer would pay, but it is a helpful backup. The utility usually pays a rate set in the program guidelines equal to its avoided cost.

In the subscription model, subscriptions are transferable. If a subscriber moves within the utility's service territory, it can keep its subscription.

If a subscriber moves outside the service territory, it can transfer its subscription. Developers maintain waiting lists, so new customers can join in place of customers who have moved.

WHY THE GROWTH?

Community solar projects are growing as an asset class because customers, developers and utilities all benefit from them.

Utilities benefit from community solar because they can recover their fixed costs, while promoting growth of renewable energy to meet state mandates. Community solar does not necessarily contribute to any utility death spiral by picking off utility customers and leaving utilities with stranded costs to maintain the grid without the customer base to support it. The customers remain with the utility, and the utility usually is able to continue recovering its costs in the fixed portion of a customer's bill.

Utilities can still charge customers fixed fees to recover the costs of transmission and distribution infrastructure. Compared to net metering, where a customer with solar can reduce the fixed-cost portion of its bill to zero, this arrangement is less scary to utilities. Rather than crediting customers the retail rate of electricity, as with solar net metering, the utility credits them at a lower rate, which is often decoupled from fixed charges the utility might otherwise not recover. Customers are typically allowed to offset 100% to 120% of their electricity demand.

Utilities are also the accountants in the community solar model. They bill customers and calculate the offset to each customer's electricity charge from the customer's portion of the community solar project. Some

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● INDUSTRY CURRENT

◀ FROM PAGE 8 developers, like **Clean Energy Collective**, offer proprietary software to facilitate this accounting.

Customers also benefit. Community solar projects are often compared to community gardens. They allow people who do not own their buildings or have a roof on which to put solar panels to subscribe to, or own, part of a community array.

Only about 20% of residential utility customers can host solar projects. The remaining 80% may be renters, own apartments or own homes with unsuitable roofs. Community solar programs are designed to reach this 80% and often try to reach low-income customers in particular.

Customers also do not have to worry about the complications that come from having solar panels on their roofs. Community solar avoids questions about roof repair, system maintenance and what happens if a customer sells his or her house.

If a customer moves, the customer can usually transfer the subscription to another customer that the developer finds (or that may be on the developer's waiting list). If the customer moves within the utility's service territory, he or she can keep the subscription.

Community solar is also good for developers. Projects are often in the 1 MW range, but can be larger, depending on the program. This can give developers economies of scale, relative to residential solar. As **First Solar's** recent investment in Clean Energy Collective showed, panels that are most economic at larger scales can reach a market that includes residential, commercial and industrial customers.

Customer acquisition costs may also be lower. The pitch to customers of community solar is possible savings and environmental benefits without the on-site construction or maintenance required for rooftop solar.

RISKS

There is interest from lenders, tax equity investors and even yield companies in financing and acquiring community solar projects, but the market is still feeling its way on risks.

Third-party ownership is a threshold requirement for domestic renewable energy projects seeking tax equity investment. In order to receive tax benefits from a project, a tax equity investor must own the project. There are three main forms of tax equity structures in use in

the solar market. They may be hard to use in community solar projects that use the purchase model where the customer owns the panels. Any tax equity investment would have to use a pooled structure like a master sale-leaseback with multiple customers as separate lessees.

The purchase model is usually more favorable from a securities law perspective. Community solar projects risk running afoul of state and federal securities laws if the sale of interests or subscriptions is considered a securities offering. Factors that bear on classification as a security include availability to the general public, the number of subscriptions offered and the characteristic of the subscriptions in the subscription agreement. Programs and projects where panels are sold to customers should have less risk of violating securities laws than those where a customer subscribes to an uncertain output. In the former case, the benefits to the customer rely less on the developer's future efforts.

If a subscription in a community solar project is a security, the developer would either have to register the offering or find an exemption from registration. State legislators and market participants are still working through the securities law issues. In the meantime, agreements between developers and customers should be drafted to avoid potential securities law risk by, for example, excluding words like "share" and "investment" and by emphasizing the sale of electricity and the developer's administrative role rather than an active decision-making role that could affect the project's viability.

Cash flow to developers of community solar projects comes from customer payments. In the subscription model, developers may also have separate agreements with utilities to sell renewable energy credits,

Customers are typically a mix of companies, municipalities and individuals. This mixture presents a more complicated risk analysis to credit committees than in single-offtaker projects. The market will eventually get used to it, but the first projects take more time for credit committees to evaluate.

Some community solar programs require that a certain percentage (e.g., 5% in Colorado) of the participants in each project be low-income residential utility customers. This requirement introduces a new type of customer to the risk analysis. Investors are used

to residential projects whose hosts have **FICO** scores above 650 or 700.

The low-income component in some community solar programs complicates tax equity financing. A developer in a subscription arrangement can improve the creditworthiness of a community solar project by trying to have low-income customers prepay, instead of making monthly payments over 20 years.

Having the utility provide backup payments for unsubscribed amounts also is a form of credit enhancement. Credit committees can take comfort in knowing that if subscribers default, there is still a base level of revenue from the utility.

Part of what makes community solar appealing to customers is that if they move, they can either take their subscriptions with them or transfer them to other customers. Developers often have waiting lists for community solar projects, so they can transfer a customer's interest to a new customer with little delay. Requiring a customer to provide notice of an intention to transfer (e.g., 180 days) helps reduce risk.

There is more risk of an interruption in revenue in a project with a few large subscribers or panel owners than one with many small customers. It may be harder to replace a large customer, even with 180 days' notice.

Municipal customers require non-appropriation provisions in their long-term power purchase agreements, including community solar subscription agreements. Non-appropriation provisions allow a municipal customer to terminate its contract if the municipality fails to appropriate enough money to pay for the electricity. Although non-appropriation risk is hard to avoid with municipal customers, provisions can be added to reduce risk. For example, the municipality might agree not to sign a new power contract with a third party for a set time after a non-appropriation event. Another common provision is a requirement that the municipality use best efforts to re-appropriate funds after a non-appropriation event occurs.

Utilities often want to own and operate community solar projects directly. Recently, **Xcel Energy**, a leading utility in community solar efforts in Colorado and Minnesota, asked the **Colorado Public Utilities Commission** for permission to own its own community solar projects. The commission denied the request preliminarily. Similar attempts by other utili-



12th ANNUAL DEALS & FIRMS OF THE YEAR AWARDS

RECOGNIZING EXCELLENCE IN THE POWER INDUSTRY IN THE AMERICAS

Power Finance & Risk is kicking off voting for the 12th Annual Deals & Firms of the Year Awards, a process that lauds excellence across the power industry in 2014.

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Non-Renewables Project
Finance Deal Of The Year

Project Finance Law Firm
Of The Year

Best Seller Of
Power Assets

Best Buyer
Of Power Assets

M&A Asset Deal
Of The Year

Best Renewable Asset
M&A Advisor

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By the publisher of GlobalCapital

● Q&A: LARRY KELLERMAN, TWENTY-FIRST CENTURY UTILITIES

Q&A: Larry Kellerman, Twenty-First Century Utilities

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period of time, which is to raise the capital and acquire one or more regulated utilities and optimize those utilities, as the name of the company suggests, by using state of the art technologies and commercial models. The business plan is premised on our strong belief that regulated utilities are and can be adaptive, innovative, value-creating enterprises that benefit society. What we would like to do is to help optimize and improve one or two of them and be part of a cleaner, more efficient, more customer-responsive industry.

PFR: What sorts of utilities are you eyeing?

Kellerman: Our business plan is going to be focused dominantly on the electric side and integrated electric and gas utilities but we are open to gas-only and other regulated utilities.

PFR: Are you targeting a particular geographical area in the U.S.?

Kellerman: Not in particular. We are considering utilities across North America and even beyond the coasts.

PFR: You said you'll be looking to acquire a couple of utilities?

Kellerman: I'll be happy when we land our first fish. But over time, our business plan, our business model, is to potentially grow beyond a single acquisition. Rome wasn't built in a day, so it will take some time.

PFR: How are you looking to finance this?

Kellerman: We are in the process of circling funding and capital commitments. We are looking to have somewhere in the range of between five and maybe a dozen to 15 limited partner funding sources, who would be direct LP owners of the equity in the respective utilities that are acquired.

PFR: What would be the plan once you acquire these entities?

Kellerman: The plan is to turn them into the best utilities we possibly can and to focus on improving them along a number of parameters. We would be looking to optimize their structure to most effectively be able to serve their customers, to make sure we can deliver our product at the lowest possible regulated cost to our customers and optimize the product mix so that we can use the best, most meaningful and impactful of today's technologies in serving the customer base. Whether those are renewable generation technologies, whether they are smart grid technologies to help manage the reliability and performance of the grid, or whether they are technologies that reach behind the meter to help customers manage and optimize their use of power, these technologies can help customers optimize their energy experience and minimize their energy consumption and cost.

This tool kit of new technologies that are cost-effective and available today, again on the generation side, on the T&D side and on the customer experience and customer energy management side, is as robust as has ever existed in the history of this industry. Our business model is going to embrace, not fight, all of those new, novel and impactful technologies, and we will do so under a regulated business model.

PFR: What is your targeted return?

Kellerman: With regulated utilities, we will be getting a regulated return as governed

“What I have been convinced of recently is that, in my estimation, the future belongs to the utility industry, and I would like to be a significant part of making that industry the best possible industry it can be.”

by the PUC, PSC or whatever the regulatory agency is that we are reporting to. Our objective, however, is to provide the best possible customer experience, the lowest possible customer cost.

I go back to the first utility CEO I worked for three decades ago, **Phil Gould of Southern California Edison**. He had a motto, and he said, ‘Look, we’re going to take actions and make decisions that are for the best for our customers. We’re going to do that because it’s the right thing to do. Over time, we hope and expect and anticipate that our regulators are going to notice the good things that we’re doing and the results we are achieving for our customers and reward us with a premium rate of return. But we’re going to do things whether or not we are rewarded because they are the right things to do.’

I cannot think of a better philosophy to have, and that is the guiding-light philosophy of Twenty-First Century Utilities. We’re going to do the best possible job for our customers in driving their costs down, in driving their experience up, and we will be hopeful and expectant that the regulators will notice this and reward us with some level of premium return on our invested capital. But whether they do or don’t, we’re going to do the right thing because the right things are the right things to do.

PFR: This is quite a different operation from what you’ve been doing at Quantum. How does it compare?

Kellerman: I’ve spent more than 15 years working in the independent power industry, at Quantum, **Goldman Sachs** and **El Paso Corp.** What I have been convinced of recently is that, in my estimation, the future belongs to the utility industry, and I would like to be a significant part of making that industry the best possible industry it can be.

PFR: It’s interesting to hear you say that this is the area of growth and you feel that this is the area of opportunity in terms of the business model.

Kellerman: Let me give you an example of

Q&A: LARRY KELLERMAN, TWENTY-FIRST CENTURY UTILITIES ●

that. Let's take rooftop solar, which is one of the battlefields that exist today between the competitive energy space, if you will, and the regulated energy space. Let's say I'm an electric utility in a given jurisdiction. I have three massive advantages over **Elon Musk**. First, I have name recognition and a brand in my local community and in my service territory. Second, I have all of the infrastructure already in place, in terms of personnel, service facilities, trained people, trucks rolling down the highway, infrastructure, I already have it in place. Third, and this is the most important of the three advantages, I have a lower cost of capital than **Solar City** or any other newcomer out there and what is solar photovoltaic? It is all about capital cost, and whoever has the lowest cost of capital wins and I have three, natural and competitive advantages.

If I embrace, as opposed to fight, this technology, I should be able to provide better customer experience at a lower cost than all the competitors out there. I will win if I use my advantages, and by winning, I don't mean crush the competition. I mean look at the competition and say I can offer a better product, a better service at a better price than any newcomers out there. Therefore, I should be in that business, not fighting it. I share this with you as one of the many examples as to what a utility can do these days, and there are many who are, but again, a number who are not.

PFR: Is your plan, going forward, to diversify? You said you're going to be focusing on the electrical utilities model, but you said you want to take it into the next century. Will you be looking at things like opportunities in solar rooftop financing?

Kellerman: The answer is yes, but the answer is going to be highly dependent on which utility and where it is. If we're going to be in a utility in the northern reaches of the Midwest, as opposed to the southern reaches of the Southwest, the answer is going to be very, very different because you have different opportunities, different locational objectives and a different milieu from the regulatory and cultural standpoint you work in. There are so many tools that new technologies are offering these days,

"I look at the challenges the utility industry is facing today and I believe our firm can not only do well in this environment but help be a leader and a positive example in this industry, a 'city on the hill.'"

again on both the supply and demand side. It's going to be a function of assessing the needs and the status of the utility that is being acquired and then optimizing the set of new investments and change in business approach to embrace the most impactful and beneficial of those technologies that can benefit the customer base of that specific utility.

PFR: What's your relationship going to be with Quantum?

Kellerman: I still remain on the board of directors of **Quantum Utility Generation**, and remain personally invested in their platform and projects. I am still working out the Quantum Energy Partners' offices. I still have a continuing, and very important, relationship with them but it's no longer my day-to-day job.

PFR: What are your plans for hiring personnel? What are your immediate plans for building the company?

Kellerman: The immediate plan is to secure funding for the management company, which is Twenty-First Century Utilities. That should be accomplished within the next month. We're well down the road toward accomplishing that, and then bring on board, over a relatively rapid period, a set of senior team members to get this show on the road.

PFR: So you're going to be looking to hire quite a few people over a couple of months?

Kellerman: I wouldn't say quite a few, I would say somewhere between a handful to a handful and a half.

PFR: Why are you launching this outfit now? What external factors are at play that prompted you to take quite a different change in direction?

Kellerman: 'Why now?' is a factor of a few things. This is something I have personally wanted to do for an extended period of time. I'm not ashamed to say that I believe in the regulated utility model and believe it is superior and much better for end-use customers when compared to the so-called competitive merchant model extant in many parts of the country's generation market.

I look at the challenges the utility industry is facing today and I believe our firm can not only do well in this environment but also help be a leader and a positive example in this industry, a "city on the hill." Now is the right time for this business initiative not because a new 'business model' is needed, but because proper implementation and adaptation of a tried and true, century-old regulated business model makes as much sense today as it did when I started in this industry. The same regulated business model, deploying new ways of interacting with customers, reaching behind their meters, reaching onto their roofs, interfacing with customers in different and increasingly constructive ways relative to what the industry has been able to do before. And we'd like to be a part of that affirmative evolution of the industry.

That is, whether it is rooftop solar, whether it is a Nest thermostat inside the customer's home, whether it is a building energy management system that helps a commercial customer modulate and manage their peak load demand. All of these and a thousand other options allow utilities to do many more things today than they have ever been able to do before. 'Why now?' is because the tools are now available that allow a utility company to make significant changes in the way the customer experience is manifested and in the way the cost structure is managed going forward is much more impactful today than it has been at least in my third of a century hanging around this space. ■

Deepwater Seals First U.S. Offshore Wind Financing

« FROM PAGE 1 **ates'** efforts to finance its 468 MW project off the coast of Cape Cod, Mass., has dominated market discussions around offshore wind in the past few months. The \$1.95 billion deal fell through earlier this year when its offtakers **National Grid** and **NStar**, now renamed **Eversource Energy**, terminated their contracts (PFR, 1/7). **Bank of Tokyo Mitsubishi-UFJ** led the deal, with **Rabobank** and **Natixis** participating as lead arrangers of a commercial debt tranche.

"We congratulate Deepwater's financial closing of their Block Island offshore wind project," **Jim Gordon** president of Cape Wind Associates, tells PFR. "Getting wind turbines installed in U.S. waters will demonstrate the significant benefits offshore wind can deliver to power pools and consumers," Gordon adds.

Financiers see Block Island as a test case for two larger Deepwater projects being developed off the Eastern seaboard: the 1 GW Garden State Offshore Energy project

off the coast of New Jersey and the 1 GW Deepwater ONE near Block Island.

"As the wind industry continues to develop and grow and more of the premier wind sites onshore get built out, people are going to be looking more and more to build offshore," **Andrew Redinger**, managing director and head of **KeyBanc Capital Markets utilities**, power and renewables group tells PFR.

"Plenty of the places along the eastern seaboard and in the great lakes have tremendous support for building offshore wind. We just need to find those places and build where there is that support," Redinger adds.

Renewable developers **RES Americas** and **Blackstone Group**-backed **OffshoreMW** recently won two leases for roughly 360,000 acres off the coast of Massachusetts. The leases would support roughly 2 GW of wind, according to the U.S. **National Renewable Energy Laboratory** (PFR, 2/4).

Latham & Watkins and **Van Ness Feldman** represented Deepwater and **Chadbourne & Parke** represented the lenders.

Spokespeople for Deepwater Wind and Société Générale declined to comment on the terms of the deal. ■

● ALTERNATING CURRENT

Ikea Partners For Solar At Refugee Camps



Swedish powerhouse **Ikea** has partnered with **United Nations High Commissioner For Refugees** to raise funds to provide solar powered lighting and other reusable technology in refugee camps. For every LED lightbulb sold in one of its stores before the end of March, Ikea will donate EUR1 (\$1.10) to the UN refugee agency.



MRoach/ Creative Commons

The money raised through the Brighter Lives for Refugees campaign will help fund solar powered street lighting, indoor solar lanterns, and other renewable technologies such as fuel efficient stoves for camps in countries including Bangladesh, Chad, Ethiopia and Jordan.

Globally there are nearly 10.5 million refugees, around half of which are children. A lack of light in the evenings impacts safety and security, say the UNHCR, adding that the campaign will help make refugee camps safer for residents.

YieldCo Sweep - February

« FROM PAGE 1 Officials expect more consolidation as sponsors look to strengthen their portfolios ahead of launching yieldcos. Toronto-based **Canadian Solar** is planning to launch a yieldco following its purchase of **Recurrent Energy** from Osaka-based **Sharp Corp.** for \$265 million (PFR, 2/6). The acquisition is slated to wrap later this month. The deal will rev up Canadian Solar's roster with an additional 4 GW of large-scale projects from Recurrent and bolster available cash flows. Canadian Solar aims to float an IPO for the yieldco in the U.S. either before year-end or early in 2016, a company official said.

Sol-Wind, which is backed by hedge fund **40 North**, reversed its plans for a \$100 million yieldco IPO, however. The proposed structure included a master limited partnership and presented corporate tax ambiguities that left the

market questioning its viability (PFR, 2/18). The proposed entity's asset base of solar and wind assets total 184 MW across the U.S., Canada and Puerto Rico. "They were a new kid on the block and they didn't have strong ties to a utility or manufacturer like **TerraForm Power** or **NRG Yield**," **David Burton**, partner at **Akin Gump Strauss Hauer & Feld** in New York, says of Sol-Wind. Yieldco shareholders, which are comprised mostly of retail investors, are at a nascent stage of understanding the dynamics of project finance and power project dynamics, as opposed to more experienced institutional investors, Burton adds.

Some degree of innovation is making its way through the yieldco sector as developer parents of yieldcos explore structures to garner capital from third-party investors. Madrid-based **Abengoa** is co-investing \$2.5 billion in a warehouse with Washington D.C.-based **EIG Global Energy Partners**, which holds a 55% stake in the venture. The warehouse will allow Abengoa to move project finance debt off of its balance

sheet during project construction and ahead of selling operational projects to **Abengoa Yield** (PFR, 2/25).

Abengoa Yield agreed to buy a portfolio of assets from its parent company for roughly \$142 million in February. The yieldco is acquiring:

- ◆ the 81-mile ATN2 transmission line in Peru,
- ◆ a 20% stake in the 100 MW Shams solar project in the United Arab Emirates,
- ◆ a 30% stake in the 100 MW Helienergy 1/2 solar project in Spain, and
- ◆ minority stakes in the Honaine and Skikda water desalination plants totaling in Algeria.

Abengoa Yield expects this portfolio to generate roughly \$14 million available for distribution every year. The yieldco and its parent are also discussing a potential third dropdown of assets. Abengoa Yield may buy those assets for \$200 million to \$250 million, according to the yieldco's 6-K filing with the U.S. **Securities & Exchange Commission**. ■